

STATEMENT OF
ROBERT A. PECK
COMMISSIONER
PUBLIC BUILDINGS SERVICE
U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT
U.S. HOUSE OF REPRESENTATIVES

“CAPITAL ASSETS CRISIS: MAINTAINING FEDERAL
REAL ESTATE WITH THE DWINDLING FEDERAL
BUILDINGS FUND”

MARCH 24, 2010



Good afternoon, Chairwoman Norton, Ranking Member Diaz-Balart, and members of this Subcommittee. My name is Robert A. Peck, and I am the Commissioner of the U.S. General Services Administration's (GSA's) Public Buildings Service (PBS). Thank you for inviting me to appear before you today to discuss maintaining our federal inventory through the Federal Buildings Fund (FBF).

PBS is developing new strategies and goals to strengthen the FBF. It is also an exciting time at PBS as we look to implement plans to increase revenue to the FBF and decrease our operating expenses. PBS will continue looking for ways to increase revenue through outleasing authorities, consolidating agency requirements in government owned space, disposing of unneeded buildings and backfilling existing underutilized buildings. We will work to improve matching revenues and expenses to ensure timely collection of rent. To reduce our operating expenses, PBS will improve the efficiencies of our buildings by promoting greening initiatives, as well as optimize the utilization of our inventory. PBS will also streamline business practices and processes to reduce overhead costs. With these changes, PBS will improve the viability of the FBF and increase the funds available for the reinvestment needed to meet our customer needs.

The American Recovery and Reinvestment Act of 2009 (ARRA) has provided significant investment in our Federal buildings inventory and we are working to transition our portfolio toward sustainable high performance green buildings.

Background of the Federal Buildings Fund:

The FBF, which was established through the Public Buildings Amendments of 1972¹, was designed to provide a stable source of funding for PBS operations and capital needs. Beginning in FY 1975, PBS began collecting rent from other agencies for the space they occupy. These rent revenues are deposited into the fund and then made available to cover the cost of PBS activities. The FBF has two main benefits. First, it provides a predictable source of revenue through agency rent payments that are appropriated annually as new obligational authority in the FBF. Second, the user charge system provides agencies with a financial incentive to reduce their overall cost of occupancy.

While initial intent of the FBF was to cover all of the operations and capital needs of the GSA, the FBF has received appropriations in order to cover necessary repair and alteration and new construction expenditures. In 1981, GAO reported that six years after the Fund's inception, the FBF was generating revenues for new construction less than Congress had appropriated annually to GSA before the Fund was created. GAO identified a number of contributing factors that lead to the need to appropriate funds including the high repair and alteration needs of GSA's older buildings, and a reduction in rental income due to administrative and

¹ Public Law 92-313

legislative actions. The same is still true today. GSA has received additional appropriations into the FBF in 8 of the last 10 years, beginning as early as 1979. The FY 11 President's Budget proposes an additional appropriation of \$291M in funding for the FBF to assist GSA in meeting its R&A and New Construction needs.

From time to time, the Administration and Congress have provided funding for a significant number of building programs. For example:

- The Public Buildings Act of 1926 funded the construction of over 100 Federal buildings across the country, including Federal Triangle here in Washington DC.
- The Public Buildings Act of 1959 laid out a major construction program totaling over \$350 million per year for a 5-year period.
- The Public Buildings Amendments of 1972 authorized a purchase contract program allowing GSA to construct over 60 buildings across the country.
- In fiscal year (FY) 1983, GSA received the authority for an opportunity purchase program and bought 13 buildings totaling 3.5 million square feet for \$305 million.

American Recovery and Reinvestment Act:

The most recent example of appropriated funding for the FBF was the American Recovery and Reinvestment Act of 2009 (ARRA) which provided GSA with \$5.5 billion for capital projects. Unlike previous building programs, the major focus of ARRA was promoting 'greening' initiatives and the sustainability of PBS' existing inventory, rather than providing new inventory to meet the changing requirements of Federal agencies. This infusion of capital has allowed GSA to make significant investment in our inventory of mission critical assets, many of which will see significant return on investment from the energy efficiency and other green investments made in the buildings.

Reinvestment Needs:

PBS' portfolio has an average age of 46 years. In fact more than 31 percent of the square footage in PBS' inventory was built before 1949 when GSA was created. As with any aging inventory, the repair needs need to be effectively managed. The anticipated needs over the next ten years, topped \$7.3 billion in FY 2008, however that number has been significantly reduced through the completion of several major renovations, the infusion of Recovery Act projects currently underway and the implementation of a more accurate assessment tool with construction cost estimates reflecting lower costs in the current market. We

are currently working to determine the full impact of the Recovery Act on the aggregate ten year horizon of repair needs of the FBF and look forward to sharing that information with the Committee at a future date.

In recent years, GSA has primarily met new space needs through leasing. The leased inventory has grown steadily for the last 50 years and in FY 2008, PBS had more leased than government owned space for the first time in its history. While PBS receives rent for leased space, most of that revenue goes to pay the private sector landlord. Structurally, the FBF cannot support both the repair and alterations needs of an aging inventory and the new construction needs of customer agencies. As is mentioned above, direct appropriations have been necessary to enable the FBF to meet demands for new facilities while simultaneously investing the repair needs of the existing inventory.

Rent Revenues and Income:

PBS will continue looking for ways to increase revenue through outleasing authorities, consolidating agency requirements in government owned space, and backfilling existing underutilized buildings.

PBS continues to utilize its authorities to provide additional sources of income through outleasing space under the Historic Building Preservation Act and the Cooperative Use Act. Although beneficial, the revenue generated from these acts is minimal. In FY 2009, PBS used its authority under the National Historic Preservation Act to generate \$4.5 million of revenue and \$6.5 million of revenue under the Public Buildings Cooperative Use Act.

PBS also continues to maximize the utilization of its buildings, backfilling vacant space to generate additional revenue. Facilities that are no longer needed are disposed of. The disposal of unneeded buildings is an important tool for PBS allowing us to avoid the operating costs associated with the buildings and in when sold, realize proceeds to the Government. Further disposing of older buildings reduces the average age of the inventory and reduces repair and alterations costs. In fiscal year 2009, PBS:

- Reduced owned and leased vacant space to less than 4 percent, which is significantly below the 2009 private sector rate of 16 percent; and
- Disposed of 17 assets, generating close to \$2 million in proceeds and avoiding \$47.6 million in liabilities.

PBS is utilizing the retention of proceeds authority Congress granted GSA through Section 412 of the Omnibus Appropriations Act of 2005. Since receiving this authority, PBS has sold unneeded assets totaling \$198 million², which has been allocated for capital reinvestment in the government owned portfolio.

² As of September 30, 2009

We will also work to be taking a look internal to our organization to determine what efficiencies we can gain. We will improve matching revenues and expenses to ensure timely collection of rent and look for operational efficiencies across the organization.

Minimizing Expenses:

PBS is examining all of its operating accounts to find ways of controlling costs and reducing expenses. We are aggressively implementing innovative green building technologies to increase building efficiencies, which will reduce operating costs. We will develop effective and streamlined practices, as well as cultivate emerging technologies to minimize energy and water consumption. PBS will reduce wasted energy, which will further reduce operating costs over the long-term. We will use renewable energy and co-generation to power offices with free, low- or no-carbon energy.

By developing these cutting-edge greening technologies, PBS will reduce the Federal government's carbon footprint, as well as lead the industry by creating new and innovative sustainability methods. These efforts will not only benefit our environment, but also improve PBS' operations, which will drive down costs and increase net income.

PBS is also committed to reducing overhead costs. We are evaluating current business processes for improvement and to streamline efficiencies. It is our fiscal responsibility to the American taxpayers to operate as efficiently and effectively as possible. PBS will excel at cost control by tightly managing our administrative and overhead costs.

Finally, PBS is working with its customer agencies to improve their operational efficiencies and space utilization. We are going to work with our customer agencies to create long-term, strategic customer portfolio plans and help shape customer requirements. Beginning this year, PBS will work with three major customer agencies to produce such plans by the end of FY 2011. PBS will develop innovative solutions with our customers to minimize expenses and maximize the performance of our buildings.

Conclusion:

Today, I have described the new strategies PBS is developing to strengthen the viability of the FBF. PBS is taking active strides to ensure we have the funds necessary to support our portfolio needs and meet our customer requirements. By implementing these strategies, PBS will increase revenue and income, as well as minimize expenses. Realizing these goals will strengthen the FBF and allow PBS to continue meeting the needs of our Federal customers and the American taxpayers.

Thank you for inviting me to appear before you today to discuss maintaining our federal inventory through the FBF. We look forward to working with you and members of this Subcommittee as we work to strengthen the resources available through the FBF.